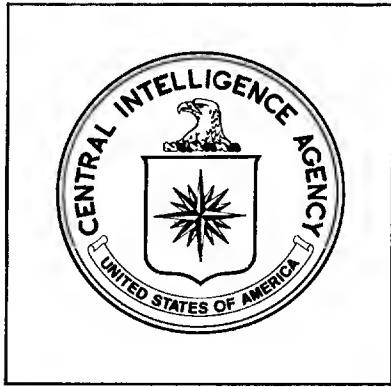


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**REGIONAL AND
POLITICAL ANALYSIS**

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209**

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24 March 1977

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Approved For Release 2004/07/16 : CIA-RDP79T00912A000100010009-9

Approved For Release 2004/07/16 : CIA-RDP79T00912A000100010009-9

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This publication is prepared by the USSR Division, Office of Regional and Political Analysis, with occasional contributions from other offices within the Directorate of Intelligence. The views presented are the personal judgments of analysts on significant events or trends in Soviet foreign and domestic affairs. Although the analysis will center on political matters, it will discuss politically relevant economic or strategic trends when appropriate. Differences of opinion will sometimes be aired to present consumers with a range of analytical views. Comments and queries are welcome. They should be directed to the authors of the individual articles or to

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Soviet Economic Policy Looking Inward?

While the hypothesis put forward here is speculative and based upon limited evidence, the subject is of considerable importance and merits discussion. The USSR Division solicits substantive responses to the points raised.

A system in which the state runs the economy but the party runs the state is ideally suited to an episodic approach to economic problems. After one or more glaring problems have been dealt with intensively for a period of time and have been partially alleviated, further concentration upon them brings diminishing returns, and other problems begin to appear more serious and more susceptible to solution, and new policies designed to address them move to the fore. This has historically been true in Russia. The Soviet response to economic shortcomings--like the Czarist response before it--has periodically turned to expanded openings to the West in search of trade, credit, and technology. Such openings have generally been followed by periods of consolidation and assimilation, during which internal adaptations have become the center of attention.

This pattern of expansion and consolidation of external economic dealings appears to have been somewhat dampened as the Soviet economy has matured, and the choice today for the Soviets is clearly not one of either-or. Nevertheless, signs have recently appeared suggesting that another shift in emphasis may be developing.

The last set of responses to economic problems sponsored by the Soviet party included expanded ties

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with the West, integration under CEMA, and consumerism.* These three policies were introduced with detente and became an integral part of it. In effect, they have constituted a substitute for the largely abortive, internally oriented economic reform movement of the 1960s. While they produced reasonably good results in the short run, they have predictably now reached a point of diminishing returns--not least because Eastern Europe has become involved as well. In fact, these policies have generally had a heavier impact on Eastern Europe than on the USSR.

In formulating these answers to Soviet and East European economic ills, the Soviet party looked largely to external sources of stimulation. Even consumerism has been developed in considerable part on the basis of Western ties and CEMA integration. But now some party commentators appear to have again begun to shift their emphasis to domestic remedies.

The Search for Internal Remedies

Since last fall a new debate has emerged over planning methods and ministerial consolidation.** Planning officials in Gosplan and the Central Committee disagree over the role of contracts ("direct ties") and the fate of the old "volume of product sold" indicator. The question of supra-ministerial organs, which flared in October, reached *Kommunist* in December when Brezhnev's remarks on the subject at the 25th Congress were interpreted to mean either a merger of ministries or formation of new organs above a group of ministries.

*Consumerism has involved more than a concern for raising labor productivity through enhanced incentives. During detente it has been seen, particularly in Eastern Europe, as a way of mitigating the adverse impact of expanded contact with the West.

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In this debate, the search is still for economic rationalization and efficiency, but without evoking the threat of spontaneous market forces that frightened many in the Soviet party a decade ago. Although one can detect strong elements of the reformist ideas of the 1960s in the recent discussion, there is little suggestion of desire for the open-ended decentralization associated with "Libermanism" which in the past took root so quickly and disturbingly in Eastern Europe. Nevertheless, the old doctrinal barriers to creating effective production indicators are at last gradually beginning to weaken, at least on paper.* But even as this happens, the Soviets are coming more and more to realize that the problems that these indicators address--questions of static efficiency--are being overtaken by the dynamic problems of development posed by the scarcity of traditional production inputs--capital, labor and raw materials--and by the pace of the scientific-technological revolution.

The Dynamic Dimension

It is particularly significant that the Soviets now acknowledge that there is a trade-off between economic growth and economic development, that even in the Soviet Union economic change can slow growth as traditionally measured. One writer has asserted in

*Some Soviet economic commentators have now gone so far as to argue for a net output indicator which would serve as an effective surrogate for (static) market efficiency on the supply side and begin to introduce some of the market's discipline on the demand side. It was recently proposed, for example, that in calculating net output deductions from wholesale prices should include not only material costs but also payments for the use of capital and credit, an allowance for (differential) rent, and various penalties for failure to meet contractual obligations--the latter in order to reflect the "fulfillment of obligations to suppliers and consumers" in enterprise results. Such net output calculations, it is acknowledged, would require an overhaul of wholesale prices before they could be used effectively in forming the wage and incentive funds. (Voyenushkin, Belov and Mirohov, in *Voprosy Ekonomiki*, December 1976)

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*Kommunist** that "accelerated renovation" of production capacity and consumer products is one of the most distinct characteristics of a developed socialist economy, yet also found that measuring such structural economic change in the USSR is thus far an "unresolved problem of accounting and planning." Therefore, he argued, the Soviets must develop a new "national economic system of quality recording and planning" under which the rate of economic development would reflect not only changes in the scale of output, but also the "speed of structural, varietal...and quality changes." The same author warns that "any serious lag of...supply behind demand creates objective conditions for the production of lower quality goods, inadequate technical standards, and obsolete variety." Unfortunately, however, this *Kommunist* writer offers no clue as to where an effective Soviet substitute is to be found for the impetus provided in the West by changing market demand.

In a subsequent editorial, *Kommunist*** addresses this problem of dynamic economic change from another angle. Despite the dramatic increase planned in investment for retooling and reconstruction under the current five-year plan, *Kommunist* finds the "main trouble" lies in the fact that "plans for enterprises are still taking insufficiently into account the achievements of scientific-technological progress." The solution advocated is revealing because it is so strictly inward-looking. Since the problem of improving the economic mechanism is "not being resolved with sufficient energy...it is necessary above all (to proceed) on the basis of already existing, most effective technical solutions...." That is, "we must disseminate more extensively the initiative and experience...of leading enterprises...." (Emphasis added.) And although *Kommunist* concludes that "acceleration of scientific and technological progress...is the key to the solution of the basic socio-economic problems facing (Soviet) society," it declines to discuss the international dimension of the scientific-technological revolution.

*A. Anchiskin, *Kommunist*, No. 14, September 1976

***Kommunist*, No. 17, November 1976

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Tipping the Scales?

These Soviet arguments appear to reflect a perceptible shift in emphasis from the analyses of a few years ago during the euphoric era of detente and of enthusiasm for external stimuli to Soviet economic development. Without rejecting foreign economic relations, including Western ties and integration with Eastern Europe, the focus of party thinking appears to be turning back to the domestic system, to the question of how to utilize the results of foreign ties or of indigenous achievements most effectively within the vast Soviet economy. The more the importance of modern technology, equipment, and techniques has increased, the more obvious it has become that effective exploitation requires the rapid and thorough dissemination of these assets and their absorption throughout the economy.

It may be premature to predict that this growing concern with indigenous economic adaptation will significantly diminish official Soviet interest in continuing rapid expansion of East-West ties. Nevertheless, it is worth noting that the chance of such a shift in attitude could be reinforced by the uncertainties that the precarious state of detente poses for Soviet and community planning, by the Bloc's large and growing debt burden, and by hardening Western attitudes on credit and other issues. Adverse publicity concerning the Soviet and Bloc economic position and human rights, among other things, has been reported by a Soviet official to be a factor in keeping the USSR out of foreign--including US--credit markets since January.* Although in reality a lack of borrowing urgency and a willingness to hold out for more favorable interest rates may be the basic operational factors in Soviet policy here, such signals cannot be entirely dismissed as possible precursors of shifts in Soviet thinking.

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This is the final paragraph of "Soviet
Economic Policy Looking Inward?"

The Soviet leaders obviously examine all dimensions in weighing the costs against the benefits of detente, but the evolving requirements of the troubled Soviet economic system are a major factor on both sides of the equation. The continued favorable shift which the Soviets seek in the "correlation of forces" presumes an economic system capable of competing with the West not only militarily, but of increasing importance, economically. In the absence of sufficient competitive gains in the economic sphere, the potential costs of greater Bloc exposure to the West--societal and political--will rise precipitately, especially if consumer dissatisfaction intensifies. Should the benefits of Western contacts come to be seen as no longer commensurate with these costs, the balance may tip--as it has in the past--and the Soviet leaders may again view a policy of consolidation within the socialist community as their most prudent course.

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In the third sentence of the first paragraph on page 5, the word *import* should be substituted for *importance*.

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